Michigan Dept. of Treasury, Local Audit & Finance Division
496 (2-98), Formerly L-3147

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type	Local Government Name	County
☐ City ☐ Township ☐ Village ☒ Other	Iron County Road Commission	Iron

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
12/31/05	5/23/06	6/30/06

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☒ yes ☐ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name)			
Anderson, Tackman & Company, PLC			
Street Address: 901 Ludington Street	City: Escanaba	State: MI	ZIP: 49829
Accountant Signature: Kevin C. Pascoe, CPA			

IRON COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2005

IRON COUNTY

BOARD OF COUNTY ROAD COMMISSIONERS

Wayne J. Wales
Chairman

Chalmers A. McGreaham Vice - Chairman	James E. Juneau Member

Douglas C. Tomasoski
Superintendent/Manager

Darlene M. Anderson
Office Manager/Clerk

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS
OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA
Sarah Peloza, CPA

INDEPENDENT AUDITORS' REPORT

Board of County Road Commissioners
Iron County Road Commission
800 W. Franklin Street
Iron River, MI 49935-1047

We have audited the accompanying financial statements of the governmental activities and the governmental major fund of the Iron County Road Commission (a component unit of the County of Iron, Michigan) as of and for the year ended December 31, 2005, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, provisions of Public Act 71 of 1919, section 21.41 of the Michigan Compiled Laws, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major governmental fund of the Iron County Road Commission as of December 31, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2006, on our consideration of the Iron County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

901 LUDINGTON STREET ESCANABA, MICHIGAN 49829 (906) 786-3111 FAX (906) 786-8940

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 29 through 30, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Iron County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company P.L.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

May 23, 2006

Management's Discussion and Analysis

Using This Annual Report

The Iron County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 11. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The road commission's net assets increased approximately 31% from $4.6 million to $6.1 million for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

Net assets increased $1,456,580 during the current year primarily due to infrastructure additions for road projects funded by state and federal funds. The investment in capital assets category increased $2,231,134.

Net assets for the year ending December 31, 2005, is as follows:

	Governmental Activities	
	2005	2004
Current and Other Assets	$ 1,376,450	$ 1,806,394
Capital Assets	8,206,569	6,245,283
Total Assets	$ 9,583,019	$ 8,051,677
Current Liabilities	1,091,834	1,035,554
Long-term Liabilities	2,394,233	2,375,750
Total Liabilities	$ 3,486,067	$ 3,411,304
Net Assets:		
Investment in Capital Assets, Net of Related Debt	5,994,669	3,763,535
Restricted	102,283	876,838
Total Net Assets	$ 6,096,952	$ 4,640,373

A summary of changes in net assets for the year ending December 31, 2005 are as follows:

	Governmental Activities	
	2005	2004
Program Revenues:		
Charges for Services	$ 819,068	794,963
Operating Grants and Contributions	3,629,822	4,818,662
Licenses and Permits	1,575	3,542
General Revenues:		
Interest Income	10,579	8,632
Gain on Disposal of Equipment	25,801	19,714
Total Revenues	$ 4,486,845	$ 5,645,513
Program Expenses:		
Primary Roads:		
Heavy Maintenance	13,385	(3,294)
Maintenance	691,846	793,236
Local Roads:		
Heavy Maintenance	20,487	168,519
Maintenance	970,190	953,061
State Trunkline Maintenance	745,421	766,535
Equipment Expenses	27,519	(79,550)
Administrative	292,663	242,189
Compensated Absenses	(4,555)	26,423
Interest Expense	114,617	143,784
Infrastructure Depreciation	158,692	30,253
Total Expenses	$ 3,030,265	$ 3,041,156
Increases in Net Assets	$ 1,456,580	$ 2,604,357

The Road Commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2005, the fund balance of the general operations fund decreased $779,112 as compared to a decrease of $544,593 in the fund balance for the year ended December 31, 2004. Total revenues were $4,553,745, a decrease of $1,091,768 as compared to last year. Prior year experienced an increase in federal projects, whereas 2005 federal projects were at more reasonable levels compared to years past resulting in most of the decline in total revenues.

Total expenditures were $5,332,857, a decrease of $857,249 as compared to last year. Total expenditures in 2005 declined for similar reasons as to why total revenues declined, as result of less federal project costs.

Budgetary Highlights

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The budgeted revenues net change from the original budget to the final amended budget amounted to $2,598,344, representing a decrease of 36%. The primary reasons for the difference between the original and final amended budgets was due to the budgeted projects for construction and engineering of Forest Highway 16 and County Road 424. These projects were originally budgeted for in 2005, yet were not undertaken.

Budgeted revenue for 2005 was higher than the actual revenue by $166,634. The primary reason for the difference is proceeds from lease purchase agreements budgeted in the amount of $280,000 were not received.

The final amended budgeted expenditures decreased by $2,427,931 over the original budget, representing a decrease of 33%. The primary reasons for the difference between the original and final amended budgets are similar to the reasons for the difference relating to revenue.

Road Commission expenditures were projected at $4,890,792 while actual expenditures were $5,332,857. The Road Commission incurred unexpected project costs relating to various projects during 2005.

Capital Asset and Debt Administration

Capital Assets

A summary of capital assets for the year ending December 31, 2005 is as follows:

	2005	2004
Capital Assets Not Being Depreciated:		
Land and Improvements	$ 26,568	$ 26,568
Construction in Progress	792,748	18,584
Other Capital Assets:		
Buildings and Improvements	3,234,888	3,230,625
Road Equipment	3,361,830	3,332,352
Other Equipment	181,858	171,213
Infrastructure and Improvements	4,280,148	2,744,924
Total Capital Assets at Historic Cost	11,878,040	9,524,266
Total Accumulated Depreciation	(3,671,471)	(3,278,983)
Total Net Capital Assets	$ 8,206,569	$ 6,245,283

Current year's major additions included the following:

Various Road Projects	$ 2,309,388	$ 2,709,689
Bridge Project	-	35,235
Trucks/Equipment	156,556	178,392
Buildings and Improvements	4,263	432,355

Debt

The road commission has limited debt obligations. Bonds issued in prior years have been paid currently. The road commission has long-term debt in the amount of $2,394,233, which represents compensated absences, and bonds and leases payable. More detailed information about the road commission's long-term liabilities is presented in Note 9 to the financial statements.

Economic Factors and Next Year's Budget

The board of county road commissions considered many factors when setting the fiscal year 2006 budget. Changes in overall revenues for 2006 compared to 2005 are expected to be flat. MTF funding is expected to be near the levels of 2005. On the positive side, one of the two bridges financed through the Critical Bridge Program is budgeted anticipating funding and construction in 2006. On the negative side, earned interest, salvage and timber sales, township funding of local heavy maintenance projects, and township and other contributions are expected to be less than in 2005.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Iron County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Iron County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Iron County Road Commission administrative offices at 800 W. Franklin Street, Iron River, Michigan 49935.

Basic Financial Statements

Statement of Net Assets
December 31, 2005

ASSETS		
Cash and Equivalents	$	123,712
Accounts Receivable:		
Michigan Transportation Fund		345,334
State Trunkline Maintenance		102,055
Due on County Road Agreements		152,110
Sundry Accounts		1,335
Inventories:		
Road Materials		523,467
Equipment, Parts and Materials		107,737
Bond Discount		20,700
Capital Assets (Net of Accumulated Depreciation)		8,206,569
Total Assets	$	9,583,019
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	475,024
Accrued Liabilities		30,668
Deferred Revenue		213,427
Advances from State		219,622
Interest Payable		32,316
Bonds Payable		45,000
Compensated Absences		75,777
Noncurrent Liabilities:		
Bonds Payable		2,100,000
Lease Payable		66,900
Compensated Absences		227,333
Total Liabilities		3,486,067
NET ASSETS		
Investment in Capital Assets Net of Related Debt	$	5,994,669
Restricted for County Road		102,283
Total Net Assets	$	6,096,952

The Notes to Financial Statements are an integral part of this statement.

Statement of Activities
For the Year Ended December 31, 2005

Program Expenses:	
Primary Road Heavy Maintenance	$ 13,385
Primary Road Maintenance	691,846
Local Road Heavy Maintenance	20,487
Local Road Maintenance	970,190
State Trunkline Maintenance	745,421
Net Equipment Expense	27,519
Net Administrative Expense	292,663
Compensated Absences	(4,555)
Interest Expense	114,617
Infrastructure Depreciation	158,692
Total Program Expenses	3,030,265
Program Revenues:	
License and Permits	1,575
Federal Grants	622,639
State Grants	2,568,633
Contributions from Local Units	438,550
Charges for Services	819,068
Total Program Revenues	4,450,465
Net Program Revenues	1,420,200
General Revenue	
Investment Earnings	10,579
Gain on Equipment Disposal	25,801
Total General Revenues	36,380
Change in Net Assets	1,456,580
Net Assets:	
Beginning of Year	4,640,372
End of Year	$ 6,096,952

The Notes to Financial Statements are an integral part of this statement.

Balance Sheet
December 31, 2005

	Governmental Fund Type General Operating Fund
ASSETS	
Cash and Equivalents	$ 123,712
Accounts Receivable:	
Michigan Transportation Fund	345,334
State - Other	102,055
Due on County Road Agreements	152,110
Sundry Accounts	1,335
Inventories:	
Road Materials	523,467
Equipment, Parts, and Materials	107,737
Bond Discount	20,700
Total Assets	$ 1,376,450
LIABILITIES AND FUND EQUITY	
Liabilities:	
Accounts Payable	$ 475,024
Accrued Liabilities	30,668
Deferred Revenue	213,427
Advances from State	219,622
Interest Payable	32,316
Total Liabilities	971,057
Fund Equities	
Fund Balance	
Unreserved and Undesignated	405,393
Total Fund Equities	405,393
Total Liabilities and Fund Equities	$ 1,376,450

The Notes to Financial Statements are an integral part of this statement.

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended December 31, 2005

Total Governmental Fund Balance	$	405,393
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		8,206,569
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		(2,515,010)
Net Assets of Governmental Activities	$	6,096,952

The Notes to Financial Statements are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2005

	General Operating Fund
Revenues:	
License and Permits	$ 1,575
Federal Sources	622,639
State Sources	2,568,633
Contributions from Local Units	438,550
Charges for Services	819,068
Interest and Rents	10,579
Other Revenue	25,801
Total Revenues	4,486,845
Expenditures:	
Public Works	5,027,836
Capital Outlay	(146,347)
Debt Service	451,368
Total Expenditures	5,332,857
Excess of Revenues Over (Under) Expenditures	(846,012)
Other Financing Sources:	
Proceeds From Lease Purchase Agreement	66,900
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(779,112)
Fund Balance – January 1, 2005	1,184,505
Fund Balance – December 31, 2005	$ 405,393

The Notes to Financial Statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2005

Net Change in Fund Balance – Total Governmental Funds	$	(779,112)
Amounts reported for governmental activities in the statements are different because:		
Governmental funds report capital outlays and infrastructure costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		1,961,286
Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets.		336,189
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		5,117
Lease proceeds provide current financial resources to governmental funds, but Entering into lease agreements increases long-term liabilities in the Statement Of Net Assets.		(66,900)
Change in Net Assets of Governmental Activities	$	1,456,580

The Notes to Financial Statements are an integral part of this statement.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Iron County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Iron County Road Commission.

Effective January 1, 2004, the Road Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Road Commission's overall financial position and results of operations has been included with the financial statements.

- Financial statements prepared use full accrual accounting for all of the Road Commission's activities, including infrastructure (roads, bridges, etc.)

- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

A. Reporting Entity

The Iron County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3 member Board of County Road Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Iron County Road Commission, a discretely presented component unit of Iron County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, along with other revenues, which are designated for road and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Iron County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement, Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

D. Assets, Liabilities, and Net Assets or Equity

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The Road Commission has not recorded an allowance for uncollectible accounts, and the Road Commission does not anticipate that amount to be material.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Iron County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets on a prospective basis from 2004 forward.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Building	30 to 50 years	Office Equipment	4 to 10 years
Road Equipment & Vehicles	5 to 8 years	Infrastructure – Roads	8 to 30 years
Shop Equipment	10 years	Infrastructure – Bridges	12 to 50 years
Engineering Department	4 to 10 years		

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Compensated Absences (Vacation and Sick Leave)

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. The annual vacation benefits earned by each employee are credited at the beginning of the year. An employee who is eligible for vacation leave in excess of twenty (20) days, may, with the consent of the employer, take pay at the employee's regular rate of pay for time in excess of twenty (20) days in-lieu-of vacation leave.

Employees may carry over a maximum of ten (10) days vacation into the next year. An employee leaving the services of the Road Commission will be paid all unused vacation carried over to January 1st up to a maximum of ten (10) days, plus any vacation earned, on a prorated basis to the end of the month of separation, in accordance with the vacation policy in effect at this time.

Road Commission employment policies provide that each full-time employee shall earn sick leave with pay at the rate of eight (8) hours for each month of employment in which the employee is compensated for at least eighteen (18) days, with unlimited accumulation. Upon permanent separation from employment, employees shall be paid for all of his accumulated sick leave at the employee's prevailing rate of pay up to a maximum of ninety (90) days. In the event his balance at time of retirement is over ninety (90) days, all accumulated excess of the ninety (90) days will be paid at the rate of fifty percent (50%).

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission's Chief Administrative Officer (superintendent/manager) and clerk prepare and submit a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year, and is approved by the Board. Also, the Board has authorized the Chief Administrative Officer to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

Budget Violations

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations by material amounts are as follows:

	Final Amended Budget	Actual	(Unfavorable) Variance
Primary Road:			
Heavy Maintenance	$ 997,730	$ 1,573,042	$ (575,312)
Maintenance	501,841	691,846	(190,005)
Local Road:			
Heavy Maintenance	445,338	770,218	(324,880)
Maintenance	713,465	970,190	(256,725)
State Trunkline Maintenance	706,301	745,421	(39,120)
Equipment Expense – Net	(476,183)	(15,544)	(460,639)
Administrative Expense – Net	143,401	292,663	(149,262)

Deficit Fund Balance

As of December 31, 2005, the County Road Fund was in a deficit fund balance condition in the amount of $123,301. A deficit fund balance is a violation of Public Act 275.

NOTE 3 - CASH AND DEPOSITS

The composition of cash and equivalents as reported in the Statement of Net Assets is presented below:

Financial Statement Presentation:		
Cash and Equivalents	$	123,712
Composition of Balances:		
Imprest Cash	$	200
Deposits:		
Checking Accounts		7,407
Held By County Treasurer		116,105
Total	$	123,712

Cash and cash equivalents consist solely of checking and saving account deposits.

Michigan statutes authorize the Road Commission to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposit, saving accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds..

Attorney General's Opinion No. 6168 states the public funds may not be deposited in financial institutions located in states other than Michigan.

Interest Rate Risk. The Road Commission carries no significant interest rate risk as all of its holdings are in bank accounts with a high degree of liquidity.

Credit Risk. State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations with a maximum maturity of 270 days. As of December 31, 2005, the Road Commission did not hold any commercial paper.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure the Road Commission's deposits may not be returned. As of December 31, the Road Commission held $49,708 in a checking account of which all was insured.

The risk disclosures for the Road Commission deposits (in regards to deposits held with the County Treasurer), as required by GASB Statement No. 40, are not available in that the Road Commission's cash deposits are part of the County's common bank account. The Road Commission would receive its proportional share of insurance coverage.

NOTE 3 - CASH AND DEPOSITS (Continued)

Concentration of Credit Risk. The Road Commission has no significant concentration of credit risk due to the fact that its deposits are with area banks.

Foreign Currency Risk. The Road Commission has no foreign currency risk as it has no deposits or investments in foreign currency.

All deposits for the Road Commission are in accordance with statutory authority.

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the Iron County Road Commission for the current year was as follows:

	Beginning Balances 01/01/05	Additions	Adjustments/ Deductions	Ending Balances 12/31/05
Capital Assets Not Being Depreciated				
Land and Improvements	$ 26,568	$ -	$ -	$ 26,568
Construction in progress	18,584	792,748	18,584	792,748
Subtotal	45,152	792,748	18,584	819,316
Capital Assets Being Depreciated				
Buildings and Improvements	3,230,625	4,263	-	3,234,888
Road Equipment	3,332,352	145,911	116,433	3,361,830
Shop Equipment	83,439	2,447	-	85,886
Engineers' Equipment	20,719	1,948	-	22,667
Office Equipment	67,055	6,250	-	73,305
Infrastructure – Roads	2,709,689	1,516,640	(14,893)	4,241,222
Infrastructure – Bridges	35,235	-	(3,691)	38,926
Subtotal	9,479,114	1,677,459	97,849	11,058,724
Less Accumulated Depreciation				
Buildings and Improvements	383,761	98,052	-	481,813
Road Equipment	2,732,097	244,139	116,433	2,859,803
Shop Equipment	60,142	3,576	-	63,718
Engineers' Equipment	15,516	1,267	-	16,783
Office Equipment	57,214	3,195	-	60,409
Infrastructure – Roads	29,858	157,987	-	187,845
Infrastructure – Bridges	395	705	-	1,100
Subtotal	3,278,983	508,921	116,433	3,671,471
Net Capital Assets Being Depreciated	6,200,131	1,168,538	(18,584)	7,387,253
Total Net Capital Assets	$ 6,245,283	$ 1,961,286	$ -	$ 8,206,569

NOTE 5 - EMPLOYEE RETIREMENT AND BENEFIT

Plan Description – The Iron County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employee's Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty connected death and post retirement adjustments to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MSA 5.333 (a); MCLA 46.12 (a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

The Road Commission offers its participants either benefits B-3 or B-4. Under benefit B-3, employees shall receive 2.25% of their five-year final average compensation with a maximum benefit of 80% of final average compensation. Under benefit B-4, employees shall receive 2.5% of their three-year final average compensation, with a maximum of 80% of final average compensation. Retirement eligibility and requirement vary by plan division. The most recent actuarial report gives the details of the plan and a copy is on file at the Road Commission office.

Actuarial Accrued Liability – All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the December 31, 2004 actuarial valuation. The entry age normal actuarial method was used to determine the disclosure entries.

GASB 25 INFORMATION (as of 12/31/2004)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	$ 4,224,621
Terminated employees (vested former members) not yet Receiving benefits	96,434
Current employees –	
Accumulated employee contributions including allocated investment income	13,020
Employer financed	4,564,761
Total Actuarial Accrued Liability	$ 8,898,836
Net Assets Available for Benefits at Actuarial Value (Market Value is $4,925,183)	5,045,678
Unfunded (Overfunded) Actuarial Accrued Liability	$ 3,853,158

NOTE 5 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

GASB 27 INFORMATION (as of 12/31/2004)

Fiscal Year Beginning	January 1, 2006
Annual Required Contribution (ARC)	$ 320,544*
Amortization Factor Used – Underfunded Liabilities (30 years)	0.053632

* Based on valuation payroll, but the actual required contribution will be based on current monthly payroll (during the fiscal year beginning January 1, 2006) times the computed employer contribution rate(s).

Funding Policy – MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

Annual Pension Costs – The normal cost and amortization payment for the fiscal year ended December 31, 2004 were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years. The Road Commission was required to contribute $333,337 for the year ended December 31, 2005. Payments were based on contribution calculations made by MERS.

Annual Pension Cost	2002	2003	2004
Annual Pension Cost (APC)	$ 262,089	$ 269,972	$ 305,609
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	$ -	$ -	$ -
Aggregate Accrued Liabilities			
Actuarial Value of Assets	$ 4,737,919	$ 4,877,534	$ 5,045,678
Actuarial Accrued Liability	8,001,922	8,494,617	8,898,836
Unfunded AAL	(3,264,003)	(3,617,083)	(3,853,158)
Funded Ratio	59%	57%	57%
Covered Payroll	1,052,519	1,099,393	1,081,518
UAAL as a Percentage of Covered Payroll	310%	329%	356%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

NOTE 5 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

Valuation Division	Contribution Percentage 2006*	2005*	2004*
Comm/Sal/Non-Un	29.29%	34.19%	29.82%
Tmstrs Local 328	30.62%	27.10%	26.36%
Hourly Non-Union	26.78%	27.15%	25.11%

* Represents the actuarial required contribution for the fiscal year ended.

The assumptions and methods used in the December 31, 2004 actuarial valuation are those adopted by the Retirement Board. The actuarial assumptions were last revised as of December 31, 2004 to reflect the results of the study of plan experience covering the period from December 31, 1998 through December 31, 2003. The actuarial assumptions currently utilized are summarized as follows:

Interest Rate – Funding plan benefits involves the accumulation of assets to pay benefits in the future. These assets are invested and the net rate of investment earnings is a significant factor in determining the contributions required to support the ultimate cost of benefits. For the 2004 actuarial valuation, the net long-term investment yield is assumed to be 8%. The reader should note that, given that the actuarial value of the assets is currently 2% higher than the market value, meeting the actuarial assumption will require average future market returns that slightly exceed the 8% investment return assumption.

Pay Increases – Because benefits are based on a member's final average compensation, it is necessary to make an assumption with respect to each member's estimated salary progression. The salary increase assumption used in the actuarial valuation projects annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

Inflation – Although no specific price inflation assumption is needed for this valuation, the 4.5% wage inflation assumption would be consistent with a price inflation of 3% to 4%.

Payroll Growth – For divisions that are not closed to new hires, the number of active members is projected to remain constant, and the total payroll is projected to increase 4.5% annually in the long term.

NOTE 6 - POST-EMPLOYMENT BENEFITS

In addition to the benefits described in Note 5, the Iron County Road Commission provides post-employment health care benefits and life insurance benefits, in accordance with the provision of Article 49, Section 3, and Article 50, Section 2 of the union agreement for all retirees who were hired by the Road Commission, and retire under the provided Michigan Municipal Employees' Retirement System. The post-employment health care benefit provides that the Road Commission will continue to pay the monthly hospitalization insurance plan premium for the retiree only, without the specific drug and dental program, provided he/she makes application for the Medicare card, prior to the effective date of Medicare coverage. The post-employment life insurance benefit provides that the Road Commission will pay for $8,000 of term life insurance coverage for each retiree. Currently, 26 retirees are eligible for these post-employment benefits. The Road Commission's policy is to finance these benefits on a pay-as-you-go basis. During the year 2005, expenditures of $134,386 were recognized for post-employment health care benefits, and $11,547 for life insurance benefits.

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2005, the federal aid received and expended by the Road Commission was $622,639 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended $500,000 or more.

NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE 9 - LONG-TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

Changes in Long-Term Debt

	01/01/05	Additions	Deletions	12/31/05
Bond Payable:				
Road Commission Facility	$ 2,190,000	$ -	$ 45,000	$ 2,145,000
Installment Purchase Agreements:				
Caterpillar Track-Type Tractor	-	66,900	-	66,900
(2) International Quad Axle Dump Trucks	56,707	-	56,707	-
Wheel Loader #380	119,109	-	119,109	-
Wheel Loader #381	115,932	-	115,932	-
Vested Employee Benefits Payable:				
Vacation Benefits	24,591	-	779	23,812
Sick Leave Benefits	283,075	-	3,776	279,298
Total	$ 2,789,413	$ 66,900	$ 341,303	$ 2,515,010

Bond Payable – Road Commission Facility Project

On January 1, 2003, Michigan Transportation Fund Bonds, Series 2003 in the amount of $2,300,000 were issued for acquiring, constructing, and furnishing and equipping a new county road commission central garage complex for use by the Iron County Road Commission. The annual requirements to pay the principal and interest on the bonds at December 31, 2005:

Terms: Semi-annual payments are due on February 1st and August 1st for a term of 30 years with a variable interest rate between 3.75 – 5.00%. February 1st payments consist of interest only and August 1st payments consist of principal and interest. Final payment is due 8/01/2032.

Year	Principal	Interest	Total
2006	$ 45,000	$ 96,948	$ 141,948
2007	45,000	95,260	140,260
2008	50,000	93,573	143,573
2009	50,000	91,698	141,698
2010	50,000	89,823	139,823
2011-2015	285,000	418,335	703,335
2016-2020	350,000	354,350	704,350
2021-2025	445,000	266,845	711,845
2026-2030	560,000	151,900	711,900
2031-2032	265,000	20,000	285,000
Total Bonds Payable	$ 2,145,000	$ 1,678,732	$ 3,823,732

NOTE 9 - LONG-TERM DEBT (Continued)

Lease Purchase – Equipment

In 2005, the Iron County Board of Road Commissioners entered into a lease purchase agreement to finance the acquisition of a Caterpillar Track-Type Tractor. The annual requirements to pay the principal and interest on the lease agreement at December 31, 2005 are as follows:

	Year	Principal	Interest	Total
Caterpillar Financial Services Corp.	2006	$ -	$ -	$ -
Terms: Annual payments of $15,666	2007	12,120	3,546	15,666
at 5.35% interest due on the 23rd of	2008	12,763	2,903	15,666
January with final payment due on	2009	13,439	2,227	15,666
1/23/2011.	2010	14,151	1,515	15,666
	2011	14,427	765	15,192
	Total	$ 66,900	$ 10,956	$ 77,856

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims would not have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at December 31, 2005.

Risk Management – The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits claims and boiler and machinery coverage. They participate in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk

NOTE 10 - COMMITMENTS AND CONTINGENCIES (Continued)

management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Iron County Road Commission became a charter member in 1984.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan, member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductions amounts.

Supplementary Information

Required Supplementary Information
Budgetary Comparison Schedule
Statement of Revenues and Other Financing Sources
For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	$ 1,000	$ 1,000	$ 1,575	$ 575
Federal Sources				
Surface Transportation Program	-	-	354,495	354,495
Economic Development "D" Funds	-	-	234,479	234,479
Federal Critical Bridge	-	-	272	272
FEMA	-	-	33,393	33,393
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	4,505,450	1,949,129	-	(1,949,129)
Local Road	949,775	934,000	-	(934,000)
Snow Removal	88,000	88,000	96,624	8,624
Allocation	-	-	2,184,585	2,184,585
Other				
State Critical Bridge	-	-	51	51
FEMA	-	-	5,421	5,421
Economic Development Fund				
Forest Road "E" Funds	213,430	213,430	213,428	(2)
Rural Primary "D" Funds	-	-	58,524	58,524
Contributions from Local Units				
Townships	170,000	425,941	438,550	12,609
Charges for Services				
Trunkline Maintenance	620,000	708,688	745,325	36,637
Trunkline Non-Maintenance	465,000	73,458	73,458	-
Salvage, Land & Building Sales	10,000	285	285	-
Interest and Rents	5,000	10,579	10,579	-
Other Revenue				
Reimbursements	68	68	-	(68)
Gain on Equipment Disposal	1,000	25,801	25,801	-
Total Operating Revenue	7,038,723	4,440,379	4,486,845	46,466
Other Financing Sources				
Proceeds From Lease Purchase Agreements	280,000	280,000	66,900	(213,100)
Total Revenue and Other Financing Sources	7,318,723	4,720,379	$ 4,553,745	$ (166,634)
Fund Balance – January 1, 2005	1,184,505	1,184,505		
Total Budget	$ 8,503,228	$ 5,904,884		

Required Supplementary Information
Budgetary Comparison Schedule
Statement of Expenditures – Budget and Actual
For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Heavy Maintenance	$ 3,221,450	$ 997,730	$ 1,573,042	$ (575,312)
Maintenance	576,275	501,841	691,846	(190,005)
Local Road				
Heavy Maintenance	455,000	445,338	770,218	(324,880)
Maintenance	705,500	713,465	970,190	(256,725)
State Trunkline Maintenance	1,085,000	706,301	745,421	(39,120)
Equipment Expense – Net	(400,000)	(476,183)	(15,544)	(460,639)
Administrative Expense - Net	109,900	143,401	292,663	(149,262)
Capital Outlay – Net	(54,500)	348,872	(146,347)	495,219
Distributive Expense – Net	1,085,000	1,058,864	-	1,058,864
Debt Service				
Principal	435,523	336,888	336,889	(1)
Interest	99,575	114,275	114,479	(204)
Total Expenditures	7,318,723	4,890,792	$ 5,332,857	$ (442,065)
Fund Balance – January 1, 2005	1,184,505	1,184,505		
Total Budget	$ 8,503,228	$ 6,075,297		

Analysis of Changes in Fund Balances
For the Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	$ 2.299,017	$ 1,330,805	$ 857,023	$ 4,486,845
Total Expenditures	2,425,067	1,860,291	1,047,499	5,332,857
Excess of Revenues Over (Under) Expenditures	(126,050)	(529,486)	(190,476)	(846,012)
Other Financing Sources (Uses)				
Proceeds From Lease Purchase Agreements	-	-	66,900	66,900
Optional Transfers In (Out)	(456,160)	456,160	-	-
Total Other Financing Sources (Uses)	(456,160)	456,160	66,900	66,900
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(582,210)	(73,326)	(123,576)	(779,112)
Fund Balance – January 1, 2005	1,047,834	136,396	275	1,184,505
Fund Balance – December 31, 2005	$ 465,624	$ 63,070	$ (123,301)	$ 405,393

Analysis of Revenues
For the Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	$ -	$ -	$ 1,575	$ 1,575
Federal Sources	588,974	33,665	-	622,639
State Sources				
Michigan Transportation Fund				
Engineering	6,900	3,100	-	10,000
Snow Removal	-	96,624	-	96,624
Allocation	1,513,634	670,951	-	2,184,585
Other				
State Critical Bridge	-	51	-	51
FEMA and Salt Shed	-	5,421	-	5,421
Economic Development Fund				
Forest Road	-	213,428	-	213,428
Rural Area	58,524	-	-	58,524
Contributions from Local Units				
Townships	130,985	307,565	-	438,550
Charges for Services				
Trunkline Maintenance	-	-	745,325	745,325
Trunkline Non-Maintenance	-	-	73,458	73,458
Salvage and Timber Sales	-	-	285	285
Interest and Rents	-	-	10,579	10,579
Other Revenue				
Gain on Equipment Disposal	-	-	25,801	25,801
Total Operating Revenue	2,299,017	1,330,805	857,023	4,486,845
Other Financing Sources				
Proceeds From Lease Purchase Agreements	-	-	66,900	66,900
Total Revenue and Other Financing Sources	$ 2,299,017	$ 1,330,805	$ 923,923	$ 4,553,745

Analysis of Expenditures
For the Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Heavy Maintenance	$ 1,573,042	$ -	$ -	$ 1,573,042
Maintenance	691,846	-	-	691,846
Local Road				
Heavy Maintenance	-	770,218	-	770,218
Maintenance	-	970,190	-	970,190
State Trunkline Maintenance	-	-	745,421	745,421
Equipment Expense – Net	(5,314)	(7,287)	(2,943)	(15,544)
Administrative Expense – Net	165,493	127,170	-	292,663
Capital Outlay – Net	-	-	(146,347)	(146,347)
Debt Service				
Debt Principal Payments	-	-	336,889	336,889
Interest Expense	-	-	114,479	114,479
Total Expenditures	$ 2,425,067	$ 1,860,291	$ 1,047,499	$ 5,332,857

Compliance Reports

ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS
OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA
Sarah Peloza, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of County Road Commissioners
Iron County Road Commission
800 W. Franklin Street
Iron River, MI 49935-1047

We have audited the financial statements of the governmental activities and major governmental fund of the Iron County Road Commission as of and for the year ended December 31, 2005, which collectively comprise the Iron County Road Commission's basic financial statements, and have issued our report thereon dated May 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Iron County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iron County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards.*

901 LUDINGTON STREET ESCANABA, MICHIGAN 49829 (906) 786-3111 FAX (906) 786-8940

Board of County Road Commissioners
Iron County Road Commission

We noted certain matters that we reported to management of the Iron County Road Commission in a separate letter dated May 23, 2006.

This report is intended solely for the information and use of the board of commissioners, management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.L.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

May 23, 2006

IRON COUNTY ROAD COMMISSION

REPORT TO MANAGEMENT

For the Year Ended December 31, 2005

ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
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REPORT TO MANAGEMENT

Board of County Road Commissioners
Iron County Road Commission
800 W. Franklin Street
Iron River, MI 49935-1047

We have audited the financial statement of the Iron County Road Commission for the year ended December 31, 2005, and have issued our reports thereon dated May 23, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated January 5, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Iron County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Iron County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Iron County Road Commission are described in Note 1 of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2005. We noted no transactions entered into by the Iron County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

901 LUDINGTON STREET ESCANABA, MICHIGAN 49829 (906) 786-3111 FAX (906) 786-8940

Accounting Estimates

Some accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were the useful lives of property and equipment for the purpose of calculating depreciation.

Management's estimate of the useful lives of property and equipment is based on management's past experience with useful lives of similar assets. We evaluate the key factors and assumptions used to develop the estimate of useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Iron County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Iron County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on the Iron County Road Commission's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Board of County Road Commissioners
Iron County Road Commission

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Iron County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

In planning and performing our audit of the financial statements of the Iron County Road Commission, for the year ended December 31, 2005, we considered the Iron County Road Commission's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated May 23, 2006, on the financial statements of the Iron County Road Commission.

This information is intended solely for the use of the Iron County Road Commission and management of the Iron County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.L.C.
Certified Public Accountants

May 23, 2006

BUDGET VIOLATIONS

Comment:

Public Act 621 of 1978, Section 18(1), as amended, provides that a local government unit shall not incur expenditures in excess of the amount appropriated. Total actual 2005 expenditures exceeded the total amended budget by a total of $442,065.

The actual 2005 expenditures for the following activities (cost centers) exceeded the amended budget allocations, which is contrary to the provision of Section 17 of Public Act 621 of 1978, the "Uniform Budgeting and Accounting Act."

	Final Amended Budget	Actual	(Unfavorable) Variance
Primary Road:			
Heavy Maintenance	$ 997,730	$ 1,573,042	$ (575,312)
Maintenance	501,841	691,846	(190,005)
Local Road:			
Heavy Maintenance	445,338	770,218	(324,880)
Maintenance	713,465	970,190	(256,725)
State Trunkline Maintenance	706,301	745,421	(39,120)
Equipment Expense – Net	(476,183)	(15,544)	(460,639)
Administrative Expense – Net	143,401	292,663	(149,262)
Distributive Expense – Net	1,058,864	-	1,058,864

Recommendation:

We recommend expenditure accounts be closely monitored in order to determine the need to amend the budget prior to year-end to prevent budget violations on a per activity (cost center) basis or in total. We are aware that distributive expenses were budgeted as a separate line item and not yet allocated to the various expense accounts, and we recommend the budgeted distributive expenses be allocated, based on an estimate if necessary, in order to prevent individual line item expenses from exceeding budget at year-end. Most importantly, we recommend the budget be closely monitored in order to prevent actual expenditures from exceeding budget expenditures in total.

COUNTY ROAD FUND DEFICIT

Comment:

As of December 31, 2005, the County Road Fund was in a deficit fund balance condition in the amount of $123,301. A deficit fund balance is a violation of Public Act 275.

Recommendation:

We recommend a Deficit Reduction Plan be submitted to the State of Michigan as required by Public Act 275.

REVENUE SOURCES

Comment:

The Road Commission is currently not collecting CAB & Oversize fees, and no longer collects township contributions of 9% on project overhead costs.

Recommendation:

We recommend the Road Commission collect CAB & Oversize fees, along with any other sources of revenue which will financially benefit the Road Commission. Collecting these fees and contributions can be an essential part of the Road Commission's plans to eliminate the County Road Fund deficit.

ACH POLICY

Comment:

We noted that the Board has not established a policy governing the use of electronic fund transfers or other ACH arrangements. This is a violation of Public Act 738 of 2002.

Recommendation:

We recommend that the Board develop a plan in accordance with Public Act 738 of 2002, detailing the authority, responsibility, and controls surrounding ACH activities by the Road Commission.

TIME REPORTS

Comment:

During testing of the payroll system and its controls, we noted the time reports of the Superintendent/Manager have not been subject to Board oversight review.

Recommendation:

We recommend time reports of the Superintendent/Manager be provided to the Board of Commissioners for oversight.

UNRECORDED ACCOUNTS PAYABLE

Comment:

We noted unrecorded accounts payable as of December 31, 2005 in the amount of $39,120.

Recommendation:

We recommend all accounts payable be recorded on the books of the Road Commission.

UNRECORDED LEASE PURCHASE AGREEMENT

Comment:

We noted an unrecorded lease purchase agreement in the ACT 51 in the amount of $66,900.

Recommendation:

We recommend the Road Commission record all lease purchase agreements in their ACT 51 Report.

FIXED ASSETS

Comment:

We noted that not all of the Road Commission's capital assets are being maintained in the computer system, and are being accounted for manually.

Recommendation:

We recommend all capital assets of the Road Commission be maintained in the computer system to alleviate the need to track these assets manually.

LATE FEES

Comment:

During our audit, we noted substantial amounts of late fees were paid on bills overdue.

Recommendation:

We recommend the Road Commission's cash flow be better utilized to prevent paying bills late resulting in late payment charges.

GASB STATEMENT 45 – ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Comment:

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is being implemented in three phases, with the Iron County Road Commission being required to implement the Statement for the year ended December 31, 2009. GASB Statement 45 is going to impact the future accounting of post-employment health insurance costs as it relates to the amount the Road Commission will be required to pay for these benefits. Beginning January 1, 2009, the Road Commission will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The Iron County Board of Commissioners as well as Road Commission Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.